

EXHIBIT A

October 27, 2023 Transcript

1 IN THE UNITED STATES BANKRUPTCY COURT
2 FOR THE NORTHERN DISTRICT OF IOWA
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4

5 IN RE:

6 MERCY HOSPITAL, IOWA CITY Case No. 23-00623 (TJC)
7 IOWA, et al. Jointly Administered
8 Debtors.
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12 REPORT OF AUCTION PROCEEDINGS

13 Via Zoom

14 Friday, October 27, 2023

15 10:09 a.m. Eastern Standard Time
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23 Reported by: Renee J. Ogden, CSR-3455, RPR.

24 Job No.: 23979
25

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ALSO PRESENT:

JOHN DINAN - Preston Hollow

JIM PORTER - on behalf of the Debtors

MARK TONEY - on behalf of the Debtors

CORBIN CONNELL - Computershare

NARENDRA GANTI - FTI Consulting

1 CLIFFORD A. ZUCKER - FTI Consulting
2 C. RICHARD BAYMAN - H2C Securities Inc.
3 ANDREW S. ORMAN - H2C Securities Inc.
4 TOM CLANCY - Mercy, Iowa City
5 ASHLEY CHAMPION-POLSINELLI - State University of Iowa
6 JACK HAAKE - Debtors
7 JACOB PARK - Mercy, Iowa City

1 Friday, October 27, 2023

2 10:09 a.m. Eastern Standard Time

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4 ATTORNEY SIMON: Good morning, everyone.

5 This is the reopened auction in the
6 Mercy Hospital, Iowa City matter, case number
7 23-00623 currently pending in the United States
8 Bankruptcy Court for the Northern District of Iowa.

9 My name is Dan Simon from McDermott Will
10 & Emery, counsel for the Debtors.

11 We're joined today by my partner,
12 Felicia Perlman; the Debtors' chief executive
13 officer, Tom Clancy; the Debtors' chief
14 restructuring officer, Mark Toney; and the Debtors'
15 chief financial officer, Jim Porter.

16 We also have the two bidding parties on
17 the line.

18 The first is the group known as the
19 Bondholder Representatives from Preston Hollow
20 Community Capital and Computershare.

21 And the second is the University of
22 Iowa.

23 We're also joined by the Official
24 Committee of Unsecured Creditors who acts as the
25 sole consultation party under the bidding

1 | procedures.

2 I'm going to ask that each party have
3 only one speaker designated to speak so that we
4 keep the transcript streamlined.

5 Nathan Coco, is it safe to assume that
6 you are the speaker for the Bondholder
7 Representative?

8 ATTORNEY COCO: That is correct.

9 ATTORNEY SIMON: Dave Gordon, is it safe
10 to assume that you are the speaker for the
11 University of Iowa?

12 ATTORNEY GORDON: Yes, that's correct.
13 David Gordon on behalf of the State University of
14 Iowa.

15 ATTORNEY SIMON: Andrew Sherman, is it
16 fair to assume that you are the speaker for the
17 committee?

18 ATTORNEY SHERMAN: It is a fair
19 statement, Mr. Simon.

20 ATTORNEY SIMON: Thank you.

21 As you know, this auction is being
22 conducted pursuant to the bidding procedures order
23 which was entered by the bankruptcy court on
24 September 14th, and filed at Docket 222.

25 The Debtor commenced the auction

1 pursuant to those bidding procedures on
2 October 4th. We were all in person at McDermott's
3 offices in Chicago. The auction was continued
4 later that evening and resumed via Zoom on
5 October 10th.

6 At the conclusion of the auction on
7 October 10th, the Debtors, after consultation with
8 the committee, determined that the highest or
9 otherwise best bid was the final bid submitted by
10 the Bondholder Representative.

11 That bid, as stated on the record, was a
12 credit bid in the amount of \$27.8 million, an
13 agreement to fund up to \$1.2 million in operating
14 losses from November 15th to November 30th, and
15 payment in cash of the \$800,000 breakup fee to the
16 University of Iowa.

17 That bid also included an obligation to
18 begin funding the operating losses of the Debtors
19 in full from December 1st until the closing of the
20 sale.

21 In the days that followed the conclusion
22 of that auction, a material disagreement emerged.
23 The Bondholder Representative took the position
24 that the obligation to fund operating losses of the
25 Debtors would be offset by all available sources of

funds, which would include the Debtors' cash as well as Foundation cash contemplated to be paid under a settlement agreement which remains subject to court approval.

The practical reality of that disagreement meant that the Debtors' cash and Foundation cash would be depleted prior to any funding obligation was required by the Bondholder Representative and prior to any closing.

The Bondholder Representative last Thursday filed a motion to compel compliance with the bidding procedures.

The Debtors dispute many of the allegations in that pleading and reserve all rights.

Needless to say, this disagreement necessarily meant that the value of the final bid from Preston Hollow was materially different than what the Debtors and the Committee determined at the auction.

Given that the sale hearing had been continued and no sale order was entered, and that the Debtors could not reach agreement with the Bondholder Representative, the Debtors determined after consultation with the Committee that it was

appropriate and consist with the bidding procedures and their fiduciary duties to reopen the auction this morning.

The various parties on the phone today were notified via email this past Wednesday.

So with those introductory comments, I want to seek one simple clarification from the University of Iowa first.

The last bid described by the University of Iowa on the record on October 10th contained an obligation to fund operating losses of the Debtors on and after December 1st, 2023 until a closing occurred.

The Debtors understood that the funding of operating losses would be calculated as the difference between operating expenses and operating revenues. In other words, this calculation would be without regard to Debtors' existing cash or Foundation cash.

Was the University's last bid on the record consistent with the Debtors' understanding as I just described?

ATTORNEY GORDON: The University's last bid on the record did not include any Foundation money.

1 With respect to cash, I do believe we
2 assumed that the Debtors would use their cash on
3 hand to fund their operations and that we would
4 make up the difference between operating revenues
5 and losses.

6 ATTORNEY SIMON: Okay. So it would be
7 the difference between the operating expenses and
8 the operating revenues?

9 ATTORNEY GORDON: Correct. And would
10 not include any Foundation money whatsoever.

11 ATTORNEY SIMON: Thank you.

12 With that clarification and the fact
13 that the Bondholder Representative stated in their
14 papers that they had a different interpretation of
15 operating losses, the Debtors have determined in
16 consultation with the committee that the last bid
17 submitted by the Bondholder Representatives is no
18 longer the highest or otherwise best bid.

19 Instead, the last bid submitted by the
20 University of Iowa on the record on October 10th
21 has been determined to be the current highest or
22 otherwise best bid.

23 This also necessarily means that the
24 Bondholder Representative bid, which was previously
25 determined to be the successful bid or the winning

bid at the auction, is no longer the successful bid or the winning bid.

At this point, I will turn back to you, Mr. Gordon, from the University of Iowa, to see if you have any modifications to your current bid or otherwise wish to make any statements for the record.

ATTORNEY GORDON: Sure, we do. Again,
David Gordon with Polsinelli on behalf of the State
University of Iowa.

Since October 10th when the Debtors filed the notice of auction results designating Preston Hollow's credit bid, the Bondholder Representative credit bid as the winning bid, the State University of Iowa has continued to monitor the situation of this bankruptcy.

The University of Iowa Healthcare Leadership, Board of Regents, State of Iowa believe that the providers and staff members of Mercy Iowa City who serve our community are invaluable essential partners.

Consistent with its commitment to maintaining sustainable access to care and healthcare workforce, and in light of the current impasse among the parties to this bankruptcy court

1 proceeding, the State University of Iowa is willing
2 to intercede to preserve the legacy of Mercy
3 Iowa City.

4 The University hereby reinstates the bid
5 in the following manner: If the University is
6 chosen as with winning bidder, and subject to the
7 acquisition being approved as the winning bidder by
8 the bankruptcy court within a reasonable period of
9 time, the satisfaction of all the closing
10 conditions in our asset purchase agreement
11 including licensure, and entering into an employee
12 leaseback with the Debtors until such time as the
13 transaction can reasonably close, which the
14 University anticipates will occur on or before
15 January 31, 2024, we reinstate our bid.

16 The purchase price will be an amount
17 equal to \$28 million, plus an amount equal to the
18 Debtors' actual operating losses exclusive of
19 professional fees and all other costs and expenses
20 the relating to the bankruptcy that are not already
21 otherwise covered by the Debtors' cash and other
22 investments for the period commencing on
23 December 1, 2023, and continuing until such time as
24 the transaction closes.

25 For the avoidance of doubt, calculation

1 of the Debtors' operating losses shall in no way
2 take into account any funds made available to the
3 Debtors by the Mercy Iowa City Foundation.

4 In addition to that cash component just
5 stated, if University is chosen as the winning
6 bidder, it commits to invest at least \$25 million
7 on information technology infrastructure, physical
8 plant infrastructure, including but not limited to
9 the roof, parking facility, plant equipment, and
10 medical equipment. The University will make this
11 \$25 million investment within five years of
12 closing.

13 The University submits this bid in
14 recognition and appreciation of the profound
15 contribution that Mercy Hospital has made and will
16 continue to make to the community. We look forward
17 to continuing the mission of Mercy Iowa City,
18 supporting its loyal staff and healthcare
19 professionals through what has been a trying time
20 and we stand with Mercy Iowa City and its employees
21 and staff.

22 ATTORNEY SIMON: I'd like to go off the
23 record for five minutes just to have a quick break
24 with our team.

25 (Off the record at 10:20 a.m.)

1 (Back on the record at 11:27 a.m.)

2 ATTORNEY SIMON: We're back on the
3 record. We appreciate everyone's patience during
4 that break.

5 We do want to make one clarification for
6 the record with respect to the last bid from the
7 University of Iowa. I'll make it now.

8 With respect to the assets being
9 purchased. To the extent that actual operating
10 disbursements are greater than actual operating
11 receipts, then the University agrees to fund the
12 difference post-December 1st without regard to the
13 Debtors' Foundation funds or the Debtors' cash on
14 hand as of that date as of December 1st.

15 That funding commitment does not include
16 any agreement to fund by the University of
17 restructuring professional fees of the Debtors
18 during this period.

19 David, can you confirm that statement on
20 behalf of the University?

21 ATTORNEY GORDON: I confirm that
22 statement on behalf of the University. That is our
23 understanding of our commitment to fund the
24 operating expenses.

25 ATTORNEY SIMON: So with that

1 clarification and statements made on the record,
2 the Debtors deem the University of Iowa's bid to be
3 highest or otherwise best bid.

4 I will now turn to Nathan, the
5 Bondholder Representatives, to determine whether
6 you wish to submit a topping bid.

7 ATTORNEY COCO: Before I address that
8 question, Dan -- thank you -- let me ask Corbin and
9 JD, do you think it's appropriate for us to have a
10 caucus or recess here or are you comfortable with
11 us proceeding?

12 MR. DINAN: PHC as Bondholder
13 Representative is comfortable proceeding.

14 MR. CONNELL: Computershare likewise is
15 comfortable proceeding. Thank you.

16 ATTORNEY COCO: So with that, I'll
17 address your question as follows.

18 Let me first state for the record, this
19 is Nathan Coco on behalf of the Preston Hollow
20 Community Capital, Inc. and Bondholder
21 Representatives, and Computershare Trust Company,
22 NA, as master trustee, which I will refer to
23 collectively as the Secured Bondholder
24 Representatives.

25 I'm joined in this proceeding by Corbin

1 Connell from Computershare who serves as the master
2 trustee, and by John Dinan on behalf of Preston
3 Hollow.

4 We would like to state for the record
5 and for the avoidance of doubt, that the Secured
6 Bondholder Representatives' final bid at the
7 auction convened on October 10, 2023 was for the
8 payment of the breakup fee, plus \$29 million
9 consisting of, one, \$27.8 million credit bid; two,
10 a \$1.2 million cash bid to be satisfied through the
11 backstop of operating losses up to that amount
12 incurred by Mercy Hospital, Iowa City, Iowa for the
13 for the period of November 15 through November 30;
14 three, a further commitment to backstop operating
15 losses incurred by Mercy for the period of
16 December 1, 2023 through the closing date.

17 The credit bid was for all of the
18 purchased assets, as that term is defined in the
19 credit bid asset purchase agreement, as well as
20 Mercy's interest in certain clinics and parking
21 lots, but excluding the medical office building
22 referred to as the MOB2 and adjacent parking lot.

23 The bid was subject to satisfaction of
24 all contractual closing conditions and the Secured
25 Bondholder's credit bid asset purchase agreement.

For the further avoidance of doubt, the the backstop commitment incorporated in the Secured Bondholder Representative's bid is different from what the University and the Debtors have just described with respect to the University's bid.

6 The backstop commitment incorporated in
7 the Secured Bondholder Representative's bid was to
8 advance funds to the Debtors' bankruptcy estates
9 for the specific amounts by which Mercy's operating
0 expenses exceeded its available funds to pay such
1 expenses including Mercy's available cash on hand
2 and any funds contributed to Mercy by the
3 Foundation.

The Secured Bondholder Representatives are willing to increase their credit bid by \$1 million. But to be clear, the Secured Bondholder Representatives will not alter or increase the amount of their bid, nor will the Secured Bondholder Representatives agree to or close a transaction with the Debtors either as a bidder, a backup bidder, or otherwise, if such bid does not provide for the application of Mercy's cash on hand and funds contributed by the Foundation in determining operating losses.

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| 5 | From the Secured Bondholder |
|---|-----------------------------|

1 Representative's perspective, any transaction that
2 is not inclusive of Mercy's cash on hand and
3 Foundation funds for purposes of determining
4 operating losses is not financially viable, does
5 not comport with the bid they proffered at the
6 auction convened on October 10th, and the Secured
7 Bondholder Representatives will not move forward on
8 that basis.

9 The Secured Bondholder Representatives
10 reserve all of their rights in connection with this
11 auction and the sale process.

12 ATTORNEY SIMON: Thank you, Nathan.

13 Based upon the statements made on the
14 record today, the Debtors in consultation with the
15 committee determine that the bid from the
16 University of Iowa is the winning bid or successful
17 bid at the auction.

18 I'll say as a part of this determination
19 the Debtors take very seriously their fiduciary
20 duties and the power granted to the Debtors under
21 the bidding procedures order.

22 That's in part why we believed it
23 appropriate to reopen the auction today.

24 The bid submitted by the Bondholder
25 Representatives as described by Mr. Coco, after

1 accounting for the fact that it required use of all
2 of the remaining funds, including Foundation funds
3 and cash on hand, meant that this bid is not a
4 viable alternative.

5 The bidding procedures grant broad
6 discretion to the Debtors, including the specific
7 ability of the Debtors to reject at any time before
8 entry of an order of the court approving a winning
9 bids, any bid that the Debtors determine is, 1,
10 inadequate or insufficient; 2 not in conformity
11 with the requirements of the bankruptcy codes
12 and/or bidding procedures; or 3, contrary to the
13 best interest of the Debtor, their estate, their
14 creditors, and other stakeholders.

15 Under this power, the Debtors do not
16 believe that any bid that requires use of the
17 Debtors' remaining cash and Foundation cash prior
18 to closing is a viable transaction under the
19 circumstances. Therefore, the Debtors reject the
20 bid of the Bondholder Representatives as stated.

21 The Debtors deem the winning bidder to
22 be the University of Iowa based upon the terms
23 stated on the record which will remain subject to
24 definitive documentation and approval of the
25 bankruptcy court.

1 Does anyone else wish to say anything
2 for the record at this point?

3 With that, I'd like to thank all of
4 parties for their cooperation and attention in
5 these important matters.

6 As you know, the Debtors have been very
7 focused on ongoing patient care in the midst of
8 these bankruptcy proceedings which has not always
9 been an easy task.

10 We thank both of the bidding parties.
11 We believe that the transaction with the University
12 of Iowa will go a long way to restoring confidence
13 in the Debtors' employees and ensuring ongoing
14 patient care in the community for many years to
15 come.

16 The Debtors will be filing shortly an
17 amended notice of auction results. I will report
18 these results to the court at the hearing this
19 afternoon.

20 We also intend to notice up a sale
21 hearing for November 5th.

22 Thank you, everyone. We're off the
23 required.

24 (Auction concluded at 11:34 a.m.)
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